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RUEHMO/AMEMBASSY MOSCOW PRIORITY 0805  
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C O N F I D E N T I A L SECTION 01 OF 05 PRAGUE 000271

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SUBJECT: MAY 8 EU SOUTHERN CORRIDOR -- NEW SILK ROAD SUMMIT  
IN PRAGUE

Classified By: Charge d'Affaires, a.i. Mary Thompson-Jones,  
Reasons 1.4 b and d.

11. (SBU) Summary: At the May 8 EU Southern Corridor ) New Silk Road Summit in Prague, Turkey, Azerbaijan, Georgia, Egypt, and the EU signed a political declaration that, among other things, underscores the EU and Turkey's intent to sign the Nabucco Intergovernmental Agreement (IGA) "in Turkey by the end of June," the EU and the participating states, plan to develop a Southern Corridor energy action plan, a commitment to conclude the Caspian Development Corporation (CDC) feasibility study by the end of 2009, and a pledge to endeavor to make progress on the "timely realization" of the ITGI-Poseidon project. EU leaders stressed the EU's commitment to developing the Southern Corridor and hailed the declaration as a breakthrough. Czech organizers attributed the decision of Kazakhstan, Turkmenistan, and Uzbekistan not to sign the declaration to their desire to avoid angering Russia, especially as no final contract or binding international agreement had been signed. While invited, no one from Iraq attended. U.S. Special Envoy for Eurasian Energy Richard Morningstar attended the Summit as an observer. He stressed U.S. support for the Southern Corridor and the CDC study but also emphasized the need for greater internal EU interconnectivity and competition. End Summary.

12. (SBU) Czech PM Topolanek (representing the EU-27), European Commission President Barroso and EU Common Foreign and Security Policy High Representative Solana hosted the Southern Corridor -- New Silk Road Summit May 8 in Prague. Given the importance of the Summit to Czech EU energy security goals, PM Topolanek was allowed to stay in office through May 8, despite having lost a March 24 vote of no-confidence. (Note: A new technocratic government was sworn in at 16:00 May 8, literally 60 minutes after the Summit's conclusion. End note.) The Southern Corridor Summit follows PM Topolanek's February visits to Kazakhstan, Turkmenistan, and Azerbaijan -- the first visit by the head of an EU presidency country to the Caspian region. The Summit's key aims were to reach out to the Caspian states, demonstrate EU commitment to the Southern Corridor and make progress toward getting Caspian gas to the EU, independent of Russian pipelines.

Participants

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13. (SBU) Azerbaijani President Aliyev, Turkish President Gul,

Turkish Energy Minister Yildiz, Georgian President Saakashvili, Turkmen Cabinet of Ministers Deputy Chair Tagiev, Kazakh Deputy Energy Minister Magauov, Head of the Uzbek State Oil and Gas Company Nazarov, and Egyptian Petroleum Minister Fahmy attend the Summit as participants. The Czechs had tried to avoid inviting Russia, fearing that Russia's presence might restrict the Caspian states willingness to speak openly. After several EU member states (notably Germany, France, Italy, Belgium and Greece), however, conditioned their approval of the Summit declaration on an invitation for Moscow, the Czechs invited Russia (represented by Deputy Energy Minister Yanovskiy), Ukraine (represented by Energy Minister Prodan) and the U.S. (represented by Special Envoy for Eurasian Energy Morningstar) as observers. EU Energy Commissioner Piebalgs, European Investment Bank President Maystadt, World Bank Sustainable Development Specialist Nyman and EBRD Natural Resources Director Bortz also participated in the discussions.

14. (SBU) EU leaders hailed the signing of the declaration, including Turkey's commitment to sign the Nabucco IGA by the end of June, as the Summit's key accomplishment and heralded this as a major breakthrough. According to Czech MFA official and summit organizer Daniel Kostoval, it was the first time the EU, Turkey and Azerbaijan had sat around the same table and signed a joint document on energy. European Commission President Barroso said the declaration demonstrated the EU was serious about the Southern Corridor and would provide the necessary framework for success.

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15. (SBU) While viewing Turkey and Azerbaijan's signatures as the most important, the Czechs reported disappointment that Turkmenistan, Kazakhstan, and Uzbekistan chose not to sign. Kostoval attributed this to the Central Asian's states desire not to risk angering Russia, especially as no final binding decisions had been made. According to Kostoval, the three countries generally avoid signing political declarations, preferring to sign only commercial contracts and binding international agreements. The Czechs were also disappointed that no one from Iraq attended. Kostoval, however, attributed Iraq's absence to organizational problems rather than political motives.

Creating a "New Silk Road"

16. (SBU) In opening the Summit, Topolanek, Barroso and Solana all stressed that the Southern Corridor was not just about energy but about creating a "new silk road" for the exchange of goods, ideas, people, and know how. They emphasized that the EU was committed to the Southern Corridor and underscored the importance of implementing the Summit Declaration. Interventions by participants centered around three basic questions: 1) each country's approach to aggregating demand through the Caspian Development Corporation (CDC) concept, 2) the volumes of gas available for the Southern Corridor, and 3) the basic principles upon which transit through the Southern Corridor should be based.

Aliyev: Build it and the Gas Will Come

17. (SBU) Azerbaijani President Aliyev reported that Azerbaijan had between two and five tcm of proven gas reserves allowing it to be a major gas exporter for decades to come. He argued that the experience with the Baku-Tbilisi-Ceyhan (BTC) oil pipeline showed that building the pipeline should come before identifying the necessary gas volumes. Key will be the stability and reliability of transport routes, market prices for producers, the predictability of transport regulations, and strong political support and financial commitments from the EU and participating states.

18. (SBU) In response to Aliyev's request that the EU make

clear which route is its priority, (Nabucco, ITGI-Poseidon or the Trans-Adriatic Pipeline (TAP)), EU Energy Commissioner Piebalgs noted that all three are compatible and that it would be up to the purchasers to choose the route. Piebalgs stressed the importance of the CDC to aggregate EU demand and stressed that the CDC would not be a monopoly but would be completely private, open, and non-exclusive. Turkish energy Minister Yildiz welcomed the CDC concept and suggested that the construction of Nabucco and ITGI would trigger an increase in gas production in Central Asia. He also emphasized the need to take into account the interests of the transit countries as well as the importance of solving regional conflicts. World Bank Sustainable Development Specialist Kari Nyman promised that the CDC feasibility study would be completed by the end of the year and noted the Bank's earlier experience with preparing a similar study on aggregating EU demand for Norwegian gas.

#### Russia: Will Raise Concerns at Russia-EU Summit

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¶9. (SBU) Russian Deputy Energy Ministry Yanovskiy stressed the importance of the CDC not ignoring the interests of established suppliers and questioned whether the Southern Corridor made the most sense geographically. He added that Russia had some concerns that it would discuss further with the EU at the May 21-22 Russia-EU Summit. In terms of transit principles, Yanovskiy stressed a coordinated legal framework, environmental safeguards, economically-justifiable tariffs, and long term contracts. Ukrainian Energy Minister Prodan noted the expense of creating new routes and emphasized the importance of strengthening existing routes and infrastructure.

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#### Morningstar: Importance of Internal EU Interconnectivity

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¶10. (SBU) In his intervention, U.S. Special Envoy for Energy Security Richard Morningstar stressed U.S. support for the Southern Corridor and the importance of greater energy interconnectivity, competitiveness and transparency. He warned that while Nabucco has the potential to enhance EU energy security, it is not a cure all; without greater internal EU interconnectivity, a Southern Corridor will ultimately mean little. Ambassador Morningstar reported that the U.S. endorsed the European Commission's proposal for a World Bank CDC feasibility study and underscored that the key issue is to increase upstream development of Turkmenistan's gas reserves, both off-shore and on-shore, on a non-discriminatory basis. Also critical will be Turkey and the EU signing the IGA by the end of June, and Turkey and Azerbaijan reaching a gas transit agreement. Ambassador Morningstar stressed that free market forces and the private sector should be the primary means through which gas is produced, transported and purchased and that transparency and the rule of law are key.

¶11. (SBU) Ambassador Morningstar met separately on the margins of the Summit with Ukrainian President Yushchenko, Azerbaijani President Aliyev, European Commission President Barroso, Turkmen Deputy PM Tagiev, Turkish Foreign Minister Davutoglu, Turkish Energy Minister Yildiz, Ukrainian Energy Minister Prodan, European Energy Commissioner Piebalgs, Czech MFA Energy Envoy Bartuska, Swedish MFA Energy Envoy Eriksson, and RWE Business Development Head Jeremy Ellis.

#### Bilats with Aliyev, Davutoglu, Yildiz, Yushchenko and Barroso

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¶12. (C) In his meeting with Ambassador Morningstar, Azerbaijani President Aliyev reported some progress toward a gas transit agreement between Azerbaijan and Turkey -- progress that appears linked to efforts on Nagorno-Karabakh and growing comfort on the part of Aliyev that Azerbaijan's interests are being considered as Turkey and Armenia move toward normalization. Aliyev noted that he had a good meeting with President Gul in Prague and would soon be

hosting PM Erdogan in Baku. Although Aliyev expressed disappointment with Turkey's past behavior in blocking access to Europe for Azerbaijan's gas, he believes Ankara is now being more forthcoming. Aliyev reiterated his position that he wants Azerbaijani gas to move westward as a means to integrate his country with Europe and protect against Russian threats. If no agreement is reached, he seemed more inclined to leave gas in the ground rather than ship significant amounts to Russia. Aliyev saw moving gas westward, as well as facilitating Turkmen exports to Europe, as Azerbaijan's contribution to the Southern Corridor. New Turkish FM Davutoglu noted to Ambassador Morningstar Turkey's concern that it cannot afford to "lose" Azerbaijan, even as Turkish relations with Armenia are repaired. Davutoglu and new Energy Minister Yildiz demonstrated a more strategic approach toward resolving outstanding issues surrounding the transit of Azerbaijani gas, including pricing and volume terms.

¶13. (C) While Ambassador Morningstar and Ukrainian President Yushchenko discussed a number of well-known problems in Ukraine's energy sector, Yushchenko did not seem well-focused on taking the necessary steps to resolve them. He did vow that Russia would not take control of Ukraine's gas transit system and consistently returned to a range of energy issues that interested him, including diversifying away from Russia in nuclear fuel. European Commission President Barroso reported that he was broadly supportive of the formation of a U.S.-EU high-level energy dialogue. He also agreed on the importance of increased interconnectivity of the EU's internal gas and electricity networks.

#### Summit Declaration

¶14. (U) In the Summit declaration the participating states agreed "to strongly support" the following steps (the full declaration is available at [www.eu2009.cz](http://www.eu2009.cz)):

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-- For the EU member states concerned and Turkey to finish the negotiations of the IGA on Nabucco as quickly as possible, to sign it by the end of June 2009 in Turkey, and to continue to support the necessary steps for its implementation, inter alia by identifying gas volumes available for marketing in the EU and Turkey;

-- For the EU Member States concerned and the relevant countries to progress further on the timely realization of the ITGI project;

-- For the EU and concerned countries to conclude the feasibility study of the CDC initiative by the end of 2009;

-- For the EU and Iraq to sign an MOU on energy as soon as possible and for the EU and Egypt to cooperate and agree on specific projects in developing Egypt's gas reserves and export potential to the EU, including via the Southern Corridor; and

-- For the EU and the participating states to monitor the implementation of the declaration and work on developing an action plan.

¶15. (U) The participants also "agreed to endeavor" to:

-- give the necessary political support and, where possible, technical and financial assistance to the construction of the southern corridor...while recognizing the need for this to be feasible, economically competitive, technically and environmentally sustainable and timely;

-- welcome transparency, competitiveness, long term predictability and stable regulatory conditions to underpin the realization of concrete infrastructure projects in the framework of the Southern Corridor;

-- envisage a mechanism for aggregating sufficient volumes to be transported through the Southern Corridor, and to take note of the feasibility study on the Caspian Development Corporation initiative that should lead to concrete proposals in this respect;

-- consider devoting as appropriate public and private financial resources necessary for the realization of the Southern Corridor, including encouraging the market-based participation of public and private companies;

-- attain the energy security of all parties including consumer and transit states...on the basis of commercial agreements;

-- implement a clear, transparent, cost-based, stable and non discriminatory transportation regime for natural gas;

-- establish interconnections in the gas sector through the Nabucco and ITGI projects and in the oil sector through the possible development of the already operating transportation system between Kazakhstan and Azerbaijan to the Mediterranean and Black Sea regions; and

-- promote the activities of public and private companies that are involved or willing to participate in the realization of the Trans-Caspian Link.

Comment

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¶16. (C) Although no binding agreements were signed, the Summit political declaration is an important step forward in the EU's efforts to enhance its energy security through diversification of supply and routes. If it is not rapidly implemented, however, the declaration will be nothing more than empty words. Time is running out on Nabucco and the Southern Corridor. Neither the producing countries -- who have other potential customers -- nor the companies involved will wait forever. Key will be the conclusion of the Nabucco

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IGA with Turkey by the end of June as well as Turkey and Azerbaijan quickly agreeing on transit terms. The CDC project can potentially help spur development of Turkmen upstream production by aggregating EU demand. To be effective, however, it needs to be both transparent and non-exclusive. To maintain momentum, the Czechs are now talking with NGOs about possibly creating a follow-up business forum to be held later this year, either in the Caspian region or Western Europe.  
Thompson-Jones